FPA New Income FPNIX

Safety and stability are the hallmarks of this offering.

Morningstar's Take FPNIX

Morningstar Rating	★★★
Morningstar Analyst Rating	Bronze
Morningstar Pillars	
Process	Positive
Performance	Positive
People	Positive
Parent	Positive
Price	Positive
Role In Portfolio	
Supporting	

Fund Performance FPNIX

Year	Total Return (%)	+/- Category
YTD	0.15	1.56
2015	0.15	1.56
2014	1.32	0.09
2013	0.67	0.38
2012	2.18	-5.32

Data through 12-31-15

1-28-16 | by Eric Jacobson

FPA New Income has long held a bearish view on bonds and has missed much of the past decade's market rally, lagging its average peer and struggling to meet a goal of surpassing the Consumer Price Index plus 100 basis points per year. That's a byproduct of its low-risk style, though, and the fund's long-term record is good when viewed through a volatility-adjusted lens: Its long-term Sharpe ratios rank near the top of the non-traditional-bond Morningstar Category. Ultimately, its ultraconservative positioning is best viewed as a safe haven from bond market sell-offs rather than a source for upside during fixed-income rallies. With a well-developed process, a good management team, and a history of long-term success, those features earn the fund a Morningstar Analyst Rating of Bronze.

That team is overseen by Tom Atteberry, who has led this fund since 2010 after comanaging the portfolio for several years with his predecessor Bob Rodriguez. Atteberry’s four-strong analyst team was dealt a setback in early 2015 with the resignation of Melinda Newman, who was hired in 2013 to lead its corporate credit efforts. She had been the most experienced member after Atteberry and was considered a potential successor. The firm has since taken steps to compensate, promoting analyst Abhi Patwardhan to director of research, and naming him a comanager here in November 2015; he is considered a potential successor to Atteberry.

Those are significant steps that help soften the uncertainty that developed after Newman resigned. But though Atteberry and his team are impressive, it is still a relatively small crew tasked with covering a big market that, after its next analyst is hired, will have three of six main contributors with less than three years at the firm. How successful FPA is in maintaining and combining those resources with the fund's thorough and cautious style will be an important determinant of how well it is able to meet or surpass its return goals. But for stability and the benefits of a cautious and thorough style, the fund is likely to remain an attractive option.

Process Pillar Positive | Eric Jacobson 01/28/2016

The fund is technically tied to the Barclays U.S. Aggregate Bond Index but instead attempts to earn positive returns exceeding the Consumer Price Index by 100 basis points over five-year periods, and positive returns over 12-month rolling periods.

That focus on positive absolute returns is part of the reason this fund is in the non-traditional bond category. Its duration is actively managed but has been very short (less than two years) since 2002, and skipper Tom Atteberry has noted that intermediate bond yields would have to rise significantly for him to extend duration much past this level. He targets a range of 75%-100% in high-quality holdings, including cash and U.S. Treasuries, and highly rated mortgage-backed, commercial-mortgage-backed, and asset-backed securities. The remainder of the portfolio can include more credit-sensitive sectors, including high-yield bonds and lower-quality securitized bond structures.

Despite its conservative bent, the fund does look for opportunities in areas that have unique sets of risks. Recent examples include loans to mortgage servicers that are purchasing and working out distressed mortgage pools and interest-only bonds structured from pools of GNMA project-loan IOs. High-yield corporates make up 10% of assets. Combined with robust issue-by-issue research, those features support a Positive Process rating.

The majority of the fund's holdings are very short term in nature. As of Sept. 30, 2015, the fund carried an average maturity of 1.8 years with a big helping of securitized fare. The portfolio's biggest shift in recent years came by significantly increasing its stake in ABS to 38% of total assets as of September 2015, from around 13% in 2013. That stake includes bonds backed by auto loans (including subprime loans), wireless towers, and storage securities. Another 20% of the portfolio is in mortgage-backed bonds including nonperforming loans and relocation bonds. Atteberry argues these holdings carry little refinance risk or interest-rate sensitivity. Other securitized holdings include mortgage pass-throughs (6%), CMBS (6%), and stripped MBS (11%).

Atteberry has maintained a 10% position in high-yield bonds since early 2013 after avoiding the space for much of the past 10 years. He favors short-term, callable high-yield names and recently added two high-yield analysts to help navigate this space. The fund did have trouble with some of its energy holdings in 2015, but they comprised a relatively small allocation in the portfolio.

All in all, below-investment-grade holdings make up about 22% of total assets, up from 4% in 2010. Cash and short-term Treasuries made up 7% of assets.

Performance Pillar Positive | Eric Jacobson
01/28/2016
The fund's record is best assessed versus its own goals of avoiding losses and beating the CPI by 100 basis points over five-year cycles, and it has scored 30 consecutive years of positive returns. The fund's short duration helped shield it during the 2013 "taper tantrum," and a shift toward cash and high-quality bonds helped the fund return 4.3% in 2008 while many of its peers posted losses.

This positioning has left it behind during the past decade's bond rally on an absolute basis. The fund lags about 80% of its distinct non-traditional-bond category on a trailing 10-year basis and would place in the bottom half and bottom quartile of the short-term and intermediate-term bond groups, respectively. Things turned out relatively well in 2015, though, as many funds across categories were buffeted by both interest-rate and credit sell-offs. The fund's overall conservatism helped keep it above water for the year, placing in the category's best third.

The fund's Positive Performance rating is based on its volatility-adjusted track record, and its returns were among the least volatile across the non-traditional, intermediate-term, and short-term bond categories over the trailing 10 years. That helped it to a topnotch 10-year Sharpe ratio that bested the vast majority of its non-traditional-bond peers as well as those in the short- and intermediate-term bond categories.

People Pillar Positive | Eric Jacobson
01/28/2016
Tom Atteberry joined FPA in 1997 and has led this fund since 2010 after comanaging the portfolio for several years with his predecessor Bob Rodriguez. Rodriguez continues to serve as a strategic advisor who helps to formulate the fund's macro outlook but is not involved in the fund's positioning or day-to-day operations.

Atteberry's team was dealt a setback in early 2015 with the resignation of Melinda Newman, who was hired in 2013 to lead the team's corporate credit efforts. She had been the most experienced team member after Atteberry and was considered a potential successor. The firm has since taken steps to compensate. Analyst Abhi Patwardhan was promoted to director of research and later added as a comanager to the fund in November 2015; he is described as a potential successor to Atteberry. The team also hired Prakash Gopinath in 2015, had brought in Joseph Choi in 2014, and has signaled plans to hire another analyst in 2016. The team is also supported by Julian Mann, with FPA since 2004, who specializes in agency mortgage-backed securities.

Manager ownership is good across this team, with Atteberry and Rodriguez each investing more than $1 million in this fund, and Mann holding more than $500,000, according to FPA. Patwardhan's modest $50,000-$100,000 allocation is likely to rise in the wake of his comanager appointment.

Parent Pillar Positive | Eric Jacobson
07/09/2014
FPA has changed but remains a stalwart steward. The boutique, long identified with its vehement and voluble managing partner Bob Rodriguez, has evolved since he took a one-year sabbatical in 2010. It has lost veterans, including one of Rodriguez's successors at FPA Capital, Rikard Ekstrand, and FPA Perennial comanager, Steven Geist. More than half of the firm's almost 30 investment personnel have joined in the past four years, many of them to help Steven Romick at FPA Crescent, where assets have more than tripled to $18 billion since 2010. The firm, which had $30 billion in assets as of mid-2014, even launched international and global value strategies in 2011 and 2013.

There are cultural constants, though. FPA is a firm run by investors for investors. Besides Rodriguez and Romick, seasoned hands, including FPA Capital's Dennis Bryan and FPA New Income's Tom Atteberry, remain, and they invest in their funds. FPA pays managers based on long-term performance and other factors, such as succession planning, to ensure managers think beyond their tenures. The firm also charges decent fees, scorns trends, keeps its nose clean, and communicates clearly with its fund owners.

Asset size could make it harder for FPA Crescent to repeat its incredible record, but the firm's focus on achieving good absolute, rather than relative, long-term returns via high-conviction, bottom-up strategies hasn't wavered.

Price Pillar Positive | Eric Jacobson
01/28/2016
At 58 basis points, the fund's expenses rose by 2 basis points in fiscal 2015 but still rank as Low relative to those of similarly distributed non-traditional-bond funds. That levy is also reasonable when compared with short- and intermediate-term bond offerings. Shareholders who redeem in less than 90 days from purchase face a 2.00% redemption fee.

Average Annual Total Returns
As of December 31, 2015

Fund/Index	MTD	YTD	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years
FPA New Income	-0.34%	0.15%	0.15%	0.71%	1.31%	2.76%	3.76%	4.41%	6.35%
Barclays U.S. Agg Bond	-0.32%	0.55%	0.55%	1.44%	3.25%	4.51%	4.97%	5.34%	6.75%
CPI + 100	-0.03%	1.67%	1.67%	1.97%	2.55%	2.87%	3.11%	3.23%	3.65%

Periods over one year are annualized.
A redemption fee of 2.00% will be imposed on redemptions within 90 days. Expense ratio calculated as of the date of the most recent prospectus is 0.56%.
As of December 31, 2015, the 30 day SEC yield was 2.72%.

Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. This data represents past performance and investors should understand that investment returns and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. Current month-end performance data may be obtained by calling toll-free, 1-800-982-4372.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies, charges, and other matters of interest to the prospective investor. Please read this Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpafunds.com, by email at crm@fpafunds.com, toll-free by calling 1-800- 982-4372 or by contacting the Fund in writing.

The Fund's expense ratio is 0.58%. A redemption fee of 2.00% will be imposed on redemptions within 90 days.

Investments in mutual funds carry risks and investors may lose principal value. Capital markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. The Fund can purchase foreign securities, which are subject to interest rate, currency exchange rate, economic and political risks. The securities of smaller, less well-known companies can be more volatile than those of larger companies.

The return of principal in a bond fund is not guaranteed. Bond funds have the same issuer, interest rate, inflation and credit risks that are associated with underlying bonds owned by the fund. Lower rated bonds, convertible securities and other types of debt obligations involve greater risks than higher rated bonds.

Interest rate risk is when interest rates go up, the value of fixed income securities, such as bonds, typically go down and investors may lose principal value. Credit risk is the risk of loss of principle due to the issuer's failure to repay a loan. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest fully and return principal in a timely manner. If an issuer defaults the security may lose some or all its value.

Mortgage securities and collateralized mortgage obligations (CMOs) are subject to prepayment risk and the risk of default on the underlying mortgages or other assets; derivatives may increase volatility. Convertible securities are generally not investment grade and are subject to greater credit risk than higher-rated investments. High yield securities can be volatile and subject to much higher instances of default. The Fund may experience increased costs, losses and delays in liquidating underlying securities should the seller of a repurchase agreement declare bankruptcy or default.

Portfolio composition will change due to ongoing management of the funds. References to individual securities are for informational purposes only and should not be construed as recommendations by the Funds, Advisor or Distributor. Most recent quarterly holdings for FPA New Income Fund may be viewed at: http://fpafunds.com/docs/funf-holdings/new-income-12-15.pdf?sfvrsn=4

As of 1/31/16, FPA New Income Fund received a Morningstar Rating of 4 stars out of 270 funds, 3 stars out of 161 funds, 3 stars out of 51 funds, for the 3-, 5- and 10- year periods, and the Overall rating in the 3 star category respectively.

The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-and 10-year Morningstar Rating™ metrics. Past performance is no guarantee of future results.

The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent and price, which are not weighted equally in Morningstar's evaluation of the Fund. Morningstar's analysts use this five pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider quantitative and qualitative factors in their research, but the assessment of each pillar and how they are combined is driven by the analyst's overall assessment and overseen by Morningstar's Analyst Rating Committee. The approach serves not as a formula but as a framework to ensure consistency across Morningstar's global coverage universe.

The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a 'Silver' rating has notable advantages across several, but perhaps not all, of the five pillars strengths that give the analysts a high level of conviction. A "Bronze" rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a "Neutral" rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative" rated fund is flawed in at least one, if not more pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to http://corporate.morningstar.com/US/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf.

The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings are based on Morningstar's current expectations about future events; therefore, in no way does Morningstar represent ratings as a guarantee nor should they be viewed by an investor as such. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what we expected.

The Overall Morningstar Rating™ for a fund is derived from the weighted-average of the performance figures associated with its three-, five-, and ten-year (if applicable) Morningstar Rating metrics. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variations in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of the funds in a broad asset class receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star.

For a glossary for terms, please view http://www.fpafunds.com/docs/education/glossary-of-terms.pdf?sfvrsn=2.